



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board

Pete T. Cenarrusa, Secretary of State

Alan G. Lance, Attorney General

J. D. Williams, State Controller

Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

Final Minutes Special Land Board Meeting May 29, 2001

A special meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 29, 2001 in Boise, Idaho. The meeting began at 1:15 p.m. with the Honorable Dirk Kempthorne presiding. The following members were present at the meeting:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable State Controller J. D. Williams
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

• **CONSENT AGENDA**

Acting Director Wiggins provided background information on the Consent Agenda items.

Attorney General Lance requested that Agenda Item #5 – Cottage Site Appeals – be moved from the Consent Agenda to the Regular Agenda. No objection was voiced.

A motion was made by Attorney General Lance to approve the Consent Agenda, with Agenda Item #5 being moved to the Regular Agenda. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report – approved

- A. Interest Rate Report – May 2001
- B. Bureau of Minerals Official Transactions – April 2001
- C. Bureau of Range Management and Surface Leasing Official Transactions – April 2001

2. Timber Sales – Staffed by Bob Helmer, Acting Chief, Bureau of Forest Management – approved

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|--------------|---------------------|-----------|
| A. CR-1-0317 | Lower Bear | 2,500 MBF |
| B. CR-3-0472 | Shoeffler Butte | 3,155 MBF |
| C. CR-4-0690 | Lower Boathouse | 1,700 MBF |
| D. CR-4-0701 | Elk Select | 2,840 MBF |
| E. CR-4-0724 | East Aldermand Bugs | 1,925 MBF |

3. Application for Qualified Bidders List, Timber Sales – Staffed by Bob Helmer, Acting Chief, Bureau of Forest Management – approved

- A. Boyd Hites Logging, Inc., 1300 Driscoll Ridge Road, Troy, ID 83871

- B. James G. Larson, 1545 Rock Creek Road, Potlatch, ID 83855
- C. Tom Mahon Logging, Inc., 1078 East Whitely Avenue, Council, ID 83612

DEPARTMENT RECOMMENDATION: That the applications for addition to the qualified bidders list be approved.

BOARD ACTION: Approved.

4. Request for Approval to Participate as a Member of the:

– Staffed by Ron Litz, Acting Assistant Director, Forestry and Fire – **approved**

- A. Clearwater-Potlatch Timber Protective Association
- B. Southern Idaho Timber Protective Association

DEPARTMENT RECOMMENDATION: That the state continue to participate as a member of the Clearwater-Potlatch Timber Protective Association and the Southern Idaho Timber Protective Association.

BOARD ACTION: Approved.

5. Cottage Site Appeals – Staffed by Alvin Carr, Leasing Specialist – **Moved to Regular Agenda**

- A. Bert & Marcia Belles

DEPARTMENT RECOMMENDATION: Direct the department to use the appraised value of \$187,000 for the valuation dates of January 1, 1998 and January 1, 1999 in determining the January 1, 2000 and January 1, 2001 annual rental payment.

- B. Eric & Christine Fehr

DEPARTMENT RECOMMENDATION: Direct the department to use the appraised value of \$142,000 for the valuation dates of January 1, 1998 and January 1, 1999 in determining the January 1, 2000 and January 1, 2001 annual rental payment.

- C. Sonderen Trust

DEPARTMENT RECOMMENDATION: Direct the department to use the appraised value of \$188,000 for the valuation dates of January 1, 1998 and January 1, 1999 in determining the January 1, 2000 and January 1, 2001 annual rental payment.

AUDIENCE WITH THE BOARD

Chuck Lempesis, Bert Belles and Eric Fehr were granted audiences with the board.

Chuck Lempesis. Mr. Lempesis commented that the cottage site lessees are very pleased that the process is working toward a conclusion. Four appeals of unique properties remain. Mr. Gale Pooley completed MAI appraisals on all four properties and three reports have been received.

There is a disparity between the appraisals completed by the lessees' appraisers and the appraisal commissioned by the State. In both instances it is important to note that the appraisal completed by Mr. Pooley and the appraisal completed by the lessees' own appraisers was substantially below assessments completed by the Bonner County Assessor. The question becomes which of the two appraisals is the most accurate. Mr. Fehr and Mr. Belles have compiled information that may be useful to the board about certain features of their properties.

Bert Belles. Mr. Belles complimented Mr. Pooley on his appraisal. However Mr. Belles did point out a \$30,000 difference between the appraisals. Mr. Belles feels that Mr. Pooley did not consider the common area and that the value of \$10,000, which his appraiser, Mr. Stan Moe, put upon that common area is a fair number to add or subtract from his property value.

Eric Fehr. Mr. Fehr distributed a letter to the board and complimented Mr. Pooley on his appraisal. Mr. Fehr feels that Mr. Pooley's work substantiates the appraisal work he had done, with one exception. That exception is the fact that Mr. Pooley included steep, sloping and level terrain. Mr. Fehr stated that steep data falls in line with his appraisal. Level data shows the price to be considerably elevated and Mr. Fehr feels that level data is not valid and should not be used.

DISCUSSION: Attorney General Lance asked if the board's affirmative action on the Consent Agenda item in any way impairs the lessees' ability to appeal. Mr. Alvin Carr, Department of Lands Leasing Specialist, responded that the lessees could still proceed to the administrative or judicial process. Attorney General Lance asked Mr. Lempesis if he agreed with that assessment. Mr. Lempesis stated that he agreed; however, Mr. Lempesis commented that he does not feel either of the lessees will seek that remedy.

Governor Kempthorne thanked Mr. Belles and Mr. Fehr for their information. Mr. Lempesis stated his understanding is that the figures would be adjusted to Mr. Pooley's appraisal. He asked Acting Director Wiggins if the numbers on Consent Agenda #5 would be the new valuations for the lessees. Acting Director Wiggins stated yes.

BOARD ACTION: A motion was made by Attorney General Lance to approve the department's recommendations. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

6. Authorization for Issuance of Deficiency Warrants to Pay Fire Suppression Costs in Fiscal year 2002 – Staffed by Ron Litz, Acting Assistant Director, Forestry and Fire – approved

DEPARTMENT RECOMMENDATION: Authorize the department to issue deficiency warrants necessary to pay the fire suppression costs beyond the \$119,200 appropriation for fiscal year 2002.

BOARD ACTION: Approved.

7. Request for Conceptual Exchange Approval and Approval to Enter into a Temporary Construction Permit with Idaho State Board of Education – University of Idaho/Idaho State University – Branch Campus Idaho Falls – Staffed by Perry A. Whittaker, Chief, Bureau of Real Estate – approved

DEPARTMENT RECOMMENDATION: Direct the department to: (1) enter into a conceptual exchange agreement with ISBE; and (2) to grant a temporary permit to the ISBE to allow construction to proceed (with the understanding that ISBE and IDL will complete an exchange as soon as possible with ISBE contingent on the approval of the Land Board before such exchange is completed).

BOARD ACTION: Approved.

8. Request for final approval – Lava Hot Springs – Staffed by Kent Nelson, Deputy Attorney General – approved

DEPARTMENT RECOMMENDATION: Contingent upon completion of environmental assessments, permitting and a determination that the state's share of project costs will be entirely offset by the value of its contributions, authorize the Lava Hot Springs Foundation to act, on behalf of the State of

Idaho, as non-federal sponsor to execute contracts necessary to complete the project and to provide for maintenance of the restored area for a period not to exceed 35 years from project completion.

BOARD ACTION: Approved.

- **REGULAR AGENDA**

- 9. **Endowment Fund Investment Board Manager's Report** – *Presented by Charles G. Saums, Manager of Investments*

Susan Tomagni, Sutro & Company. Ms. Tomagni presented the third fiscal quarter performance report for the Endowment Fund. She stated that over the next few quarters the report format will change as needed. Ms. Tomagni encouraged the board to make recommendations known.

With regard to the market in general, Ms. Tomagni stated that the past year has been enormously difficult. Money managers have been punished severely for doing exactly what they are hired to do – which is to adhere to their style and to stay disciplined. This is especially true of the large cap growth managers who were heavily invested in largely capitalized technology stocks. The integrity of the investment reform, as a part of a long-term cohesive strategy, has not been compromised by the turmoil.

At this time, Sutro and Company sees nothing in the numbers to feel that the purpose or possibility inherent in the reform has been jeopardized. In fact, Sutro is very pleased with the results. Sutro takes comfort in knowing that they did not succumb to pressures to rush reforms in mandated style allocations. Since the end of the third fiscal quarter the managers are up considerably. Ms. Tomagni believes that April 2001 is the best month in Endowment history and that the figures have only gotten better since April 30.

For the quarter ending March 31, 2001 the total portfolio was down 8%. During that same time period, the S&P 500 was down 11.9% and the equity index blend was down 14.1%. Sutro, by virtue of the Variable Spending Policy, is managing to the S&P 500. The numbers on the Variable Spending Policy – the 8.5% spending rule – was derived from an exhaustive study of the S&P 500 by QInsight. When Sutro came up with its particular asset allocation, the benchmark that they were most concerned with was the S&P 500. The total portfolio for equity only was down 13.5%. The S&P 500 was down 11.9% and the equity index blend was down 14.11%. The top five holdings are utilities, energy and blue chip technology.

DISCUSSION: Controller Williams asked if dollar amounts could be added to the charts. Ms. Tomagni stated in the future she would include gross dollar amounts whenever possible.

Governor Kempthorne asked at what point performers are given more opportunity to perform. Ms. Tomagni responded that the reason the fund is diversified across all types of styles is because at any given time one style is going to be in favor. The tendency is to rebalance in their disfavor because essentially their portion of a portfolio has grown. By not rebalancing managers are, in effect, given more opportunity to perform. Ms. Tomagni suggested the board might wish to consider an annual rebalancing as a matter of good investment policy and not get too fancy about the timing or the manner in which the portfolio is rebalanced.

Attorney General Lance asked why the Russell group is used as the benchmark. Ms. Tomagni stated that Russell is the established benchmark. The S&P 500 is the most widely used and, on an aggregate basis, Ms. Tomagni used the S&P 500. The Russell provides constantly rebalanced and very standardized specific benchmarks and is, in essence, what the managers manage to. Ms. Tomagni feels that Russell is the standard.

Controller Williams suggested that the board be given a comparison of its managers with something that would be representative of the same type of performance by other similar managers. Ms. Tomagni stated the peer group does that in an aggregated fashion. The bar charts represent the range of performance within each sub-category.

Attorney General Lance asked whom the blue ribbon managers are and whether the fund would qualify to move within the blue ribbon area. The fund's current managers are primarily in the yellow, which means there are companies doing better. Ms. Tomagni responded that the managers were chosen for their long-term track record. These managers have had a tough couple of quarters. If the board could have seen the numbers at the time managers were chosen they would have seen that these managers were all in the blue ribbon category.

Ms. Tomagni stated the question becomes when the NASDAQ is down 70%, how is it possible that some large cap growth managers were dead even. The answer is that the manager was not doing what he was hired to do. There are managers who keep themselves in the large cap growth universe but who stray from that discipline. If those managers were truly invested in large cap growth stocks, they could not have stayed even. As a consultant, Sutro could not recommend a manager who had just one good quarter. The managers chosen have long track records and have beaten their index with relatively little risk. Sutro is managing to a policy-dictated number. The managers work to reduce risk while getting the best possible return at a reasonable risk level. Sutro is extremely hawkish in determining whether managers are adhering to their style. If there is reason to let managers go, the matter will be brought to the board's attention instantly with a suggestion that appropriate action be taken.

Controller Williams asked at what point the board should look at the aggregate to make the hard decisions about managers. Ms. Tomagni stated that after 18 months of full performance, Sutro will start making sure that managers are optimizing monies entrusted to them.

Governor Kempthorne commented that what he is hearing is "stay the course." Mr. Saums stated that it is a long-term program and it is being closely watched.

BOARD ACTION: No action was taken on this agenda item.

10. Capitol Commission Plan – Presented by Winston Wiggins, Acting Director

DEPARTMENT RECOMMENDATION: Direct the department to manage Capitol Endowment property as a part of the nine-endowment land portfolio to provide revenues of \$7,000,000 to \$8,000,000 in the next ten years, as well as a perpetual revenue stream. Direct further that the department meet with the Capitol Commission annually to review performance and to revise expectations.

AUDIENCE WITH THE BOARD

Mr. Roy Eiguren, Capitol Commission Chairman, was granted an audience with the board.

Mr. Eiguren. The Admissions Bill for the State of Idaho provided large tracts of federal land for the benefit of certain state institutions. Thirty-two thousand acres of lands were gifted by the federal government to the State of Idaho for the purpose of erecting and maintaining public buildings at the seat of government. Those 32,000 acres were in place for a long period of time as timberlands, as well as mineral lands. At some point, possibly between 1910-1920, the Legislature and the Land Board thought it appropriate to sell large tracts of those lands for the purpose of building the state capitol. Today slightly more than 7000 acres remain.

For a variety of reasons, the State never chose to put the balance of those lands in endowed status. It was not until 1998 that the Legislature and the Governor enacted legislation to put those lands in a

permanent endowed status. At the same time, two separate funds were created in the State Treasury. One fund, the Endowment Fund, is exclusively for the purpose of maintaining the State Capitol building in Boise. The second fund is the Capitol Endowment Income Fund to which the royalties of other income from these lands would flow, as well as interest and other income from the endowment land itself. The State Legislature was able to go back in time with the State Treasury to determine that there was about \$3.3 million of prior land sales from these lands that simply were residing as surplus funds in the State Treasury. Those \$3.3 million were put into the Endowment Trust Fund.

When the Capitol Commission was established in 1998, it began simultaneously two separate processes, as required by law. One process was to develop the Master Plan for the restoration of the Capitol building. The other process was to develop a funding program to recommend to the Governor and to the Legislature what is within a mix of public and private funds that might be made available to bring about the restoration.

Mr. Eiguren stated that he is pleased to report that the Commission has completed the Master Plan for the Capitol building. The plan has been formally accepted by the Governor, as well as formally adopted by the Idaho State Legislature, in the form of House Concurrent Resolution Number 21, which was adopted this last legislative session.

The Resolution does two things. It accepts and confirms the acceptance by the Legislature of the Master Plan and it provides the Idaho State Building Authority with the legal authority to issue up to \$32 million in financing bonds for the purpose of paying for the restoration.

The Legislature also appropriated \$32 million from the General Account into the Capitol Endowment Income Fund, which has now already occurred, and interest is being earned off of those funds through the State Treasurer's office.

In total, the Capitol Commission has \$64 million in total funding for the restoration of the capitol. That figure was derived from the architects retained to develop a cost estimate. The Commission has a high degree of confidence that this is a very accurate estimate of what it will cost to restore the Capitol building. The estimate is based upon the actual costs of restoration of the Wisconsin State Capitol in Madison, Wisconsin. The figures were adjusted for Idaho's particular market place. An escalation factor was added for inflation along with a significant contingency being built in. The bottom line is that the Capitol Commission has \$64 million and is committed to financing from the State of Idaho. The Commission is now in the process of actually designing the restoration to a \$64 million level.

One of the Commission's two obligations is to develop a funding program, which has been done. Part of that funding program includes the lump sum appropriation received but it also includes the long term financing already mentioned. In addition, the Commission has committed to the Governor and to the Legislature that it will try to offset those costs through other sources. Those other sources include four items, one of which is the endowment lands. Two is the issuance of a special commemorative license plate that will be issued on a one-time basis for the period of the restoration beginning next January and running through December 31, 2006. The third is looking to any available federal historic preservation or other funds. Also the Commission is working with the Congressional Delegation about the prospect of obtaining additional research and development funds for the geothermal part of the Capitol building. Idaho has the only geothermally heated capitol of the fifty states. Finally the Commission is going to engage in a private sector fundraising effort that will commence later this year.

Idaho has never had a continuing stream of revenue available for the Capitol building. The State simply did not reinvest back into the Capitol. Of the \$64 million that the Commission is projecting for the total restoration cost, \$50 million is for basic infrastructure to bring the building into conformance with current codes. At this time the Capitol does not meet any code, with one exception. The Capitol

building does meet fire code in the part of the building that burned in 1992. The building still uses the original mechanical and plumbing systems. However, the building has serious problems with leaking pipes.

The Commission believes that the best way it can act as stewards for the Capitol building is to use the remaining 7000-plus acres as a way to build up the trust fund. At the end of a ten-year timeframe, \$7 million could be added to the fund. At that point there could be \$10 million, plus a continuing Endowment Trust Fund from which proceeds could be used for the operation and maintenance of the Capitol. In fact, it could be used to offset a portion of the debt service on the continuing bonds where the State Building Authority has issued the bonds. The Commission, however, has been cautioned by its financial advisors that to take action either at the Land Board level, the Capitol Commission level or at the legislative level to specifically dedicate the income from the endowment for the purpose of discharging debt service runs afoul of Internal Revenue Service arbitrage rules.

In closing Mr. Eiguren stated that the Capitol Commission spent a considerable amount of time working with the department. In particular, the Commission had one of its members, Will Storey, lead its efforts in reviewing the materials presented. Mr. Storey feels very strongly that this is the appropriate way to proceed. He believes that it does maximize the income to the Commission in a way that also meets long term management objectives. At the same time it does not, as once had been suggested, provide for the outright sale of the land or exchanges of the lands, which creates a number of legal difficulties. The Commission joins with the Department of Lands staff in the recommendation before the board.

DISCUSSION: Attorney General Lance asked if 7000 acres would be able to provide for the continuing maintenance and support of the Capitol in the future. Mr. Eiguren stated that it would depend on assumptions relative to a \$10 million trust fund corpus. Applying a conservative return of 5%, Mr. Eiguren believes that a continuing stream of revenue would overcome a great many problems experienced over the last number of years. The last time there was any significant investment in the State Capitol was with the insurance proceeds resulting from the fire in 1992. Prior to that there was some restorative work done in conjunction with the Centennial of the State in 1990 in the main part of the rotunda. Other than that, there has been absolutely zero dollars reinvested back into the Capitol in the last two decades, other than modest upkeep. The Commission's thought is that this continuing stream of revenue would, on an annual basis or if allowed to build up over time, serve as a fund so that infrastructure items could be replaced.

Governor Kempthorne commented that originally 32,000 acres were designated for public buildings. Over a period of time much of that acreage was sold. He asked if public buildings was the recipient of those moneys. Mr. Eiguren stated that the Capitol Commission asked the same question and that assumption was made. However, the Department of Lands has not been able to track all of the sales back in time. Mr. Wiggins stated it is his understanding that the money was distributed to public buildings as it came in. It is believed that the money went into a general public building's budget for a particular year and did not go into an endowment fund.

Governor Kempthorne asked when the current trust fund for the Capitol was established. Mr. Eiguren responded that the number was established in 1998. The Capitol Commission at that time requested that the State Treasurer provide an accounting of dollars remaining in the General Account from prior land sales of these lands. That figure came out to be a little less than \$3 million. From statehood until 1998, historical research shows that the sale of timber, lands or minerals from the lands did go into the General Account. Once money was in the general account, the Legislature and the Governor appropriated the money to whatever purpose they felt appropriate. By tracing the money for a decade or two, it was found that the dollars did go to public buildings. Above and beyond that, it has not been determined where the money went.

In reading the recommendation, Dr. Howard commented that she is bothered by the dollar figure in the directive, which is in a sense a directive to the Department of Lands to manage in a way that

creates a certain revenue stream. Dr. Howard feels that the wording is very directive, as opposed to saying that the department should manage the lands for maximum return within the department's philosophy. Acting Director Wiggins talked before about the lands being there to produce after ten years. Dr. Howard stated that the board would certainly like to derive revenue from those lands at that time.

Dr. Howard expressed concern that the recommendation might set a precedent for the Department of Lands to return a certain dollar figure. In looking at the bigger picture, Dr. Howard stated that she could see the same thing happening to the general endowment from the standpoint of a directive being given to create a certain amount of revenue. There are times when revenue is going down from all available sources and there are no guarantees that it will go back up. It worries Dr. Howard that a specific dollar figure was written into the recommendation.

Mr. Eiguren stated that the Commission has taken the position that the land management philosophy and approach is best left to the board and to the Department of Lands staff. To the extent appropriate and prudent, the Commission's request was to maximize the return in some of the early years to build the corpus for the trust fund. Building the corpus would overcome the longer-term problem that has been experienced without a revenue source for the Capitol.

Mr. Wiggins stated that it would probably be more appropriate to identify the \$7 to \$8 million as a target rather than as a hard figure. There are many things that can not be controlled such as the price of timber, when timber is harvested, et cetera. He said that is the reason why it was suggested that the department meet with the Capitol Commission every year. The department does not want the Capitol Commission counting on a certain income stream that, for reasons beyond the department's control, is not likely. Having said that, Mr. Wiggins stated that \$7 to \$8 million is a reasonable figure. It does not deplete the resource in any way and the department feels satisfied that should the market stay stable or true, that amount of revenue could be generated.

Dr. Howard asked if there would be agreement with removing the dollar figures entirely from the recommendation and to replace the figures with wording to say "provide maximum return." Dr. Howard feels that listing dollar figures would result in an expectation that those dollar figures be met. Mr. Wiggins responded that he does not have any problem with changing the wording. He deferred to Mr. Eiguren for additional comments.

Mr. Eiguren stated that the Commission did not view the recommendation as a hard dollar figure. The Commission was hoping to point to something that would suggest that the corpus of the trust would build to the point that the Commission would have some realistic expectation that once the Capitol was restored, there would be a continuing stream of revenue to maintain it. Unfortunately the State's history has not been very good in that regard.

Governor Kempthorne suggested that by giving direction, rather than identifying a specific amount, the recommendation would give direction without the amount. For a benchmark purpose, if it said "based on current projections it is estimated that this could achieve \$7 or \$8 million" it would not be a part of the directive itself.

Controller Williams commented that originally there was a total of about 3.5 million acres of endowment lands. About one million acres were sold. According to best estimates of the department that million acres generated about \$60 million, which is in the Endowment Fund. Now the remaining 2.5 million acres, as of July 1, 2000, has generated about \$790 million of income, which went into the fund. In 1998 two funds were created. One was an Endowment Fund and one was an Income Fund. Controller Williams asked Mr. Eiguren if he could differentiate between the two and who decides what goes into what. Mr. Eiguren responded that the Legislature makes the decision. The two funds are set up as follows: the Capitol Endowment Fund, which is the Commission's trust fund, simply has within it the residue of the dollars that were tracked from the Treasury. The Income Fund is the fund that receives any income from the corpus of the trust, as well as from the revenues derived from the

7600 acres. It would be the intent of the Commission, and the Commission has had this discussion with the leadership of the Joint Finance and Appropriations Committee, that these dollars come into the Income Fund on an annual basis. The Commission would make a recommendation to the Governor and to the Legislature as to the allocation of those dollars so that some portion would remain in the Income Fund to fund any operational maintenance issues and any balance would go to build the Trust Fund to a higher level.

Controller Williams asked what the difference is under the Constitution between the proceeds from endowment lands and the proceeds from timber sales of education endowment land. He questioned whether the Land Board would be given authority over those funds. Mr. Eiguren stated that the drafting of the two sections was completed by the Office of the Attorney General in consultation with legislative leadership. The actual management of the Endowment Fund is vested in the Endowment Fund Investment Board. Controller Williams commented that his sense is if the Legislature could have taken this annual money from the timber sales over the last 50-60 years it would have been appropriated. The \$800 million Endowment Fund would not exist. He suggested that someone may want to clarify the matter.

BOARD ACTION: A motion was made by Dr. Howard to modify the department's recommendation as follows:

The board directs the department to manage Capitol Endowment property as part of the nine-endowment land portfolio to maximize the long-term return to the endowment. Based on current projections, it is expected that the portfolio will yield revenues of \$7 million to \$8 million in the next ten (10) years. The board further directs the department to meet with the Capitol Commission annually to review performance and to revise expectations.

Attorney General Lance seconded the motion. The motion carried on a vote of 5-0.

11. Request for Conceptual Approval to Initiate a Land Exchange – Waterloo – Staffed by Perry A. Whittaker, Chief, Bureau of Real Estate; Presented by Jay Biladeau, Assistant Director, Lands, Range, Minerals

DEPARTMENT RECOMMENDATION: Conceptually direct the department to complete the exchange involving the Waterloo property and the state cottage site endowment property.

DISCUSSION: Dr. Howard commented that originally the board began exchanges to complete the Nazarene Church Camp–Ponderosa Park expansion exchange. This property was excess property. Dr. Howard feels that the board and the department are only moving ahead because the groundwork was already completed for this exchange.

Dr. Howard asked to revisit this issue because she feels that the question becomes does the board want to keep exchanging cottage sites for timber. Her concern is that the board will be inundated with people trying to broker deals, as has happened in the past. Dr. Howard stated she does not like a “piece meal” approach. Her preference would be that the board thinks through its intent for the future and that the board not deal with individual negotiations.

Attorney General Lance commented it is his understanding this parcel is a stand-alone property and is not needed for the Nazarene exchange. He concurs with Dr. Howard's concern. The board worked very hard to amend the Constitution to provide the opportunity to have a public auction that removes all doubt and suspicion.

Controller Williams commented that apparently this lot was involved in another exchange and the lessee pulled out of that exchange at the department's request. He feels it would be unfair to the lessee for the department not to proceed with this exchange.

Attorney General Lance asked if the board and the department have made commitments to these individuals. Kent Nelson, Deputy Attorney General, responded that this particular owner (Waterloo) did enter into a conceptual agreement subject to the approval of the Land Board. At the same time, commercial properties were being investigated. Properties were sought that would be good acquisitions for the endowments and that would allow accomplishment of the Legislature's request for the Ponderosa Park property to be expanded. As it turned out, the commercial properties ultimately exceeded the value. Due to that fact, the Waterloo property was pulled and was made separate.

Attorney General Lance asked Mr. Nelson if he perceived any ethical or moral obligation, albeit not a legal obligation, to proceed with this action. Mr. Nelson responded yes. He feels that these people would have a right to be disappointed with the Land Board if this exchange does not proceed.

Dr. Howard stated that her concern has nothing to do with the person desiring the land. She is looking at the issue from the standpoint of how does the board want to deal with these kinds of issues today and into the future. What will be valuable in 30 years? What will be valuable in 60 years? The board is in this for the long term too.

Attorney General Lance stated that he does agree with Dr. Howard. He feels the board needs to call a halt to these exchanges. The board needs to catch its breath and regroup to find out whether the new Constitutional mechanism can be used with more frequency. However, General Lance stated even though there is no legal obligation to proceed he feels there is a moral or ethical obligation to do so.

Dr. Howard commented that while she respects the department's efforts, she could not support the motion. She stated she would vote in opposition to the motion to get a signal out that this is something the board needs to consider in depth.

BOARD ACTION: A motion was made by Attorney General Lance to accept the department's recommendation. State Controller Williams seconded the motion. The vote carried on a vote of 4-1, with Governor Kempthorne, Secretary of State Cenarrusa, Attorney General Lance and State Controller Williams voting aye; Dr. Howard voted nay.

- A motion was made by Attorney General Lance to resolve into Executive Session at 3:05 p.m. Controller Williams seconded the motion. The motion carried on a vote of 5-0.

- **EXECUTIVE SESSION**

A To Consider Personnel Matters, Idaho Code § 67-2345(1)(b) – *Presented by Winston Wiggins, Acting Director*

Upon unanimous consent the board resolved back into Regular Session at 4:08 p.m. There being no further business to come before the board, the meeting adjourned at 4:08 p.m. No actions were taken by the board during the Executive Session.

IDAHO STATE BOARD OF LAND COMMISSIONERS

President, State Board of Land Commissioners and
Governor of the State of Idaho

Pete T. Cenarrusa
Secretary of State

Winston A Wiggins
Acting Director